

**NEWELL-FONDA
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2005 Election)

James Wernimont	President	2007
Roger Sarchet	Vice President	2005
Lyle Rossiter		2006
Greg Baskerville		2006
Julie Sexton		2007

(After September, 2005 Election)

James Wernimont	President	2007
Roger Sarchet	Vice President	2008
Lyle Rossiter		2006
Greg Baskerville		2006
Julie Sexton		2007

SCHOOL OFFICIALS

Ronald Day	Superintendent
Marcia Johnson	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Newell-Fonda Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Newell-Fonda Community School District, Newell, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Newell-Fonda Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 15, 2006 on our consideration of Newell-Fonda Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Newell-Fonda Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

August 15, 2006

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Newell-Fonda Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,036,864 in fiscal 2005 to \$3,490,006 in fiscal 2006. Expenditures increased from \$3,442,030 in fiscal 2005 to \$3,681,102 in fiscal 2006.
- The increase in revenues was due primarily to increased revenue from state sources. This is a result of the 2005 increase in enrollment due to the closing of OLGC elementary.
- The increase in expenditures is due in part to the increase in staff needs due to the closing of OLGC elementary. When added to overall salary increases, staff costs were up over \$140,000. Of the \$240,000 increase in expenses, over 65% was related directly to instruction, primarily salary and benefits. Over 15% of the increase was due to increases in plant maintenance and operation, primarily utility increases.
- The Management Fund revenues increased from \$31,303 in fiscal 2005 to \$78,164 in fiscal 2006. Management expenditures increased from \$61,728 in fiscal 2005 to \$76,603 in fiscal 2006, primarily due to increases in early retirement and insurance costs.
- Local Option Sales Tax revenues increased dramatically with a full year of collection from Calhoun, Pocahontas and Buena Vista Counties. Revenues increased from \$187,396 in fiscal 2005 to \$265,081 in fiscal 2006. Minor expenditures for equipment were made in fiscal 2006.
- PPEL revenues decreased from \$80,375 in fiscal 2005 to \$57,437 in fiscal 2006. The decrease is due to not receiving a Fire Safety Grant in Fiscal 2006. At the same time, expenditures decreased from \$212,758 in fiscal 2005 to \$126,935 in fiscal 2006. Shifting of some equipment purchases to the Capital Projects Fund was part of the reason for the decrease.
- The Nutrition Fund revenues increased from \$183,331 in fiscal 2005 to \$189,735 in fiscal 2006. Expenditures also increased from \$169,535 in fiscal 2005 to \$177,134 in fiscal 2006.
- Activity Fund receipts increased from \$152,587 in fiscal 2005 to \$192,173 in fiscal 2006. Expenditures also increased from \$151,377 in fiscal 2005 to \$196,298 on fiscal 2006. Part of this change is due to tournament activities in 2006, a significant increase in student resale done through the Activity Fund, as well as other miscellaneous activities. It should be noted that the overall balance remained steady despite the large difference in cash flow through this account.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Newell-Fonda Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Newell-Fonda Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Newell-Fonda Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Newell-Fonda Community School District

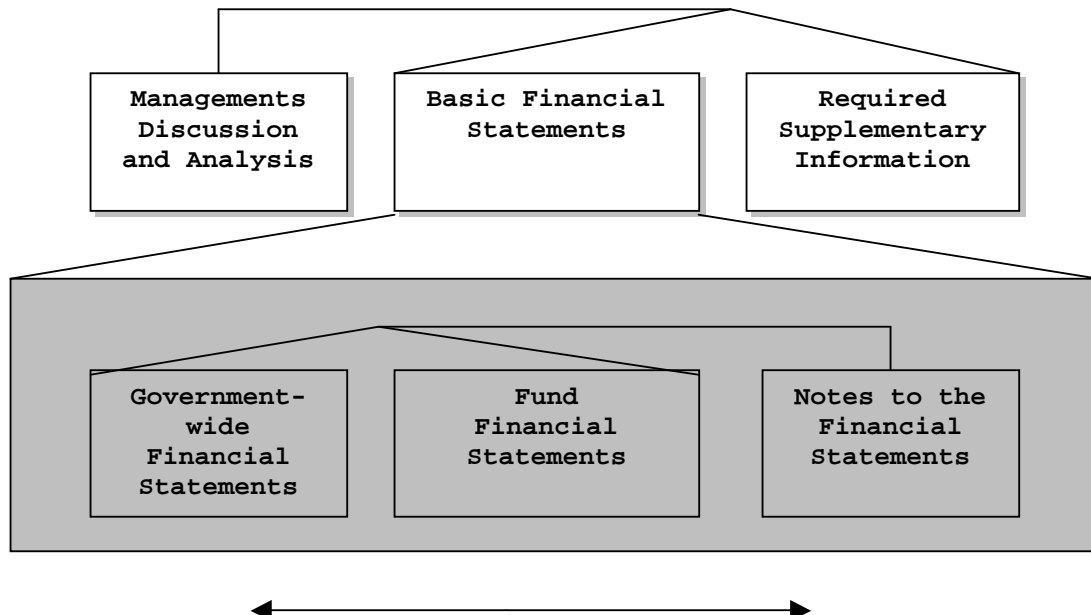


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2				
Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trusts.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Condensed Statement of Net Assets (expressed in thousands)							
	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Current assets	2,828	2,599	61	48	2,889	2,647	9.14%
Capital assets	401	400	2	2	403	402	0.25%
Total assets	<u>3,229</u>	<u>2,999</u>	<u>63</u>	<u>50</u>	<u>3,292</u>	<u>3,049</u>	<u>7.97%</u>
Current liabilities	1,342	1,129	-	-	1,342	1,129	18.87%
Non-current liabilities	-	-	-	-	-	-	0.00%
Total liabilities	<u>1,342</u>	<u>1,129</u>	<u>-</u>	<u>-</u>	<u>1,342</u>	<u>1,129</u>	<u>18.87%</u>
Net Assets							
Invested in capital assets, net of related debt	401	400	2	3	403	403	0.00%
Restricted	934	722	-	-	934	722	29.36%
Unrestricted	552	748	61	47	613	795	-22.89%
Total net assets	<u>1,887</u>	<u>1,870</u>	<u>63</u>	<u>50</u>	<u>1,950</u>	<u>1,920</u>	<u>1.56%</u>

The District's combined net assets increased 2%, or approximately \$30,000 over the prior year. The increase was primarily due to an increase of almost \$280,000 in the Capital Project Fund. The largest portion of the District's net assets is the invested in cash and pooled investments.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$182,000 or 23%. This decrease in unrestricted net assets was a result of increased salary and utility cost. Funding for the increase in enrollment caused by the closing of OLGC elementary will continue to be a year behind the related costs.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2006 and 2005.

Figure A-4
Change in Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
	\$	\$	\$	\$	\$	\$	%
Revenues:							
Program revenues:							
Charges for service and sales	67	90	100	103	167	193	-13.47%
Operating grants, contributions and restricted interest	752	623	90	80	842	703	19.77%
General revenues:							
Property tax	1,157	1,164	-	-	1,157	1,164	-0.60%
Local option sales tax	265	185	-	-	265	185	43.24%
Unrestricted state grants	1,751	1,370	-	-	1,751	1,370	27.81%
Unrestricted investment earnings	27	22	-	-	27	22	22.73%
Other	85	34	-	-	85	34	150.00%
Total revenues	<u>4,104</u>	<u>3,488</u>	<u>190</u>	<u>183</u>	<u>4,294</u>	<u>3,671</u>	<u>16.97%</u>
Program expenses:							
Governmental activities:							
Instruction	2,618	2,442	-	-	2,618	2,442	7.21%
Support Services	1,268	1,224	-	-	1,268	1,224	3.59%
Non-instructional programs	-	-	177	169	177	169	4.73%
Other expenses	200	161	-	-	200	161	24.22%
Total expenses	<u>4,086</u>	<u>3,827</u>	<u>177</u>	<u>169</u>	<u>4,263</u>	<u>3,996</u>	<u>6.68%</u>
Change in net assets	<u>18</u>	<u>(339)</u>	<u>13</u>	<u>14</u>	<u>31</u>	<u>(325)</u>	<u>346.00%</u>

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 91% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,043,901 and expenses were \$4,086,383.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services		Net Cost of Services		Net Change
	2006	2005	2006	2005	2005-06
	\$	\$	\$	\$	
Instruction	2,618	2,442	1,998	1,911	4.55%
Support Services	1,268	1,224	1,221	1,180	3.47%
Other expenses	<u>200</u>	<u>161</u>	<u>48</u>	<u>23</u>	<u>108.70%</u>
Totals	<u>4,086</u>	<u>3,827</u>	<u>3,267</u>	<u>3,114</u>	<u>4.91%</u>

- The cost financed by users of the District's programs was \$67,130.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$512,453.
- The net cost of governmental activities was financed with \$1,157,075 in property and other taxes and \$1,750,990 in unrestricted state grants.

Business Type Activities

Revenues for School Nutrition were \$189,735 and expenses were \$177,134. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the District held meal prices steady.

INDIVIDUAL FUND ANALYSIS

As previously noted, Newell-Fonda Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 1,887,266, a one percent increase over last year's ending fund balances of \$1,869,331. Increases in capital projects funds offset increased general fund costs to result in a small overall increase.

Governmental Fund Highlights

- General Fund revenues increased from \$3,036,864 in fiscal 2005 to \$3,490,006 in fiscal 2006. Expenditures increased from \$3,442,030 in fiscal 2005 to \$3,681,102 in fiscal 2006.
- The increase in revenues was due primarily to increased revenue from state sources. This is a result of the 2005 increase in enrollment due to the closing of OLGC elementary.
- The increase in expenditures is due in part to the increase in staff needs due to the closing of OLGC elementary. When added to overall salary increases, staff costs were up over \$140,000. Of the \$240,000 increase in expenses, over 65% was related directly to instruction, primarily salary and benefits. Over 15% of the increase was due to increases in plant maintenance and operation, primarily utility increases.
- The Management Fund revenues increased from \$31,303 in fiscal 2005 to \$78,164 in fiscal 2006. Management expenditures increased from \$61,728 in fiscal 2005 to \$76,603 in fiscal 2006, primarily due to increases in earlier retirement and insurance costs.
- Local Option Sales Tax revenues increased dramatically with a full year of collection from Calhoun, Pocahontas and Buena Vista Counties. Revenues increased from \$187,396 in fiscal 2005 to \$265,081 in fiscal 2006. Minor expenditures for equipment were made in fiscal 2006.
- PPEL revenues decreased from \$80,375 in fiscal 2005 to \$57,437 in fiscal 2006. The decrease is due to not receiving a Fire Safety Grant in Fiscal 2006. At the same time, expenditures decreased from \$212,758 in fiscal 2005 to \$126,935 in fiscal 2006. Shifting of some equipment purchases to the Capital Projects Fund was part of the reason for the decrease.
- Activity Fund receipts increased from \$152,587 in fiscal 2005 to \$192,173 in fiscal 2006. Expenditures also increased from \$151,377 in fiscal 2005 to \$196,298 on fiscal 2006. Part of this change is due to tournament activities in 2006, a significant increase in student resale done through the Activity Fund, as well as other miscellaneous activities. It should be noted that the overall balance remained steady despite the large difference in cash flow through this account.

Proprietary Fund Highlights

The Nutrition Fund revenues increased from \$183,331 in fiscal 2005 to \$189,735 in fiscal 2006. Expenditures also increased from \$169,535 in fiscal 2005 to \$177,134 in fiscal 2006.

BUDGETARY HIGHLIGHTS

The District's receipts were \$209,529 more than budgeted receipts, a variance of 5%. The most significant variance resulted from the District receiving more in miscellaneous income than originally anticipated.

Total expenditures were less than budgeted overall, due primarily to the District's budget for the PPEL and Activity Funds. Expenditures exceeded the amounts budgeted in the Instruction, non-instructional programs and other expenditures functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$402,371, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 1% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$67,821.

The original cost of the District's capital assets was \$1,627,057. Governmental funds account for \$1,604,693, with the remainder of \$22,364 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Land	2	2	-	-	2	2	0.00%
Buildings	255	273	-	-	255	273	-6.59%
Furniture and equipment	144	125	2	2	146	127	14.96%
	<u>401</u>	<u>400</u>	<u>2</u>	<u>2</u>	<u>403</u>	<u>402</u>	<u>0.25%</u>

Long-Term Debt

The District has no long-term debt.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- Due to the increased enrollment in 2004-2005, the state funding for the additional students was seen in 2005-2006. The General Fund balance experienced another significant decrease in 2005-2006 due to increased salaries and utilities.
- The SILO tax money will continue to come in and accumulate. There are no plans at this time to spend this money, but informal talks with a neighboring district have been held. The idea of building a new high school building between the two districts has been discussed, but it must be emphasized that these talks are very preliminary and informal.
- The trend seems to be for enrollment to begin declining again, after the large increase experienced in 2004-2005. This anticipated declining enrollment is part of the reason for the talks with a neighboring district. Our lower elementary classes are currently all two sections, but as enrollment declines our experienced, staff needs will change.
- The District is aware of increasing mandates for programs such as No Child Left Behind. This causes our staff to be increasing their reporting and accountability to standards, and this all costs money. The state has passed increased funding for professional development, which should help defray these costs in 2006-2006.
- Allowable growth of 4% is inadequate to meet normal increases in salaries and benefits. The District will see increased costs in IPERS due to rate increases.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marcia Johnson, District Secretary/Treasurer, Newell-Fonda Community School District, 205 Clark Street, Newell, Iowa 50568.

Basic Financial Statements

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	1,365,113	54,992	1,420,105
Receivables:			
Property tax:			
Current year	11,955	-	11,955
Succeeding year	1,337,444	-	1,337,444
Due from other governments	85,836	-	85,836
Other receivables	-	-	-
Accrued interest receivable	28,031	1,239	29,270
Inventories	-	4,815	4,815
Capital assets, net of accumulated depreciation	400,712	1,659	402,371
Total assets	<u>3,229,091</u>	<u>62,705</u>	<u>3,291,796</u>
Liabilities			
Accounts payable	4,381	-	4,381
Deferred revenue:			
Succeeding year property tax	1,337,444	-	1,337,444
Total liabilities	<u>1,341,825</u>	<u>-</u>	<u>1,341,825</u>
Net assets			
Invested in capital assets	400,712	1,659	402,371
Restricted for:			
Management levy	55,454	-	55,454
Physical plant and equipment levy	409,651	-	409,651
Capital projects	469,042	-	469,042
Unrestricted	552,407	61,046	613,453
Total net assets	<u>1,887,266</u>	<u>62,705</u>	<u>1,949,971</u>

See notes to financial statements.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:	2,617,889	67,130	553,194	(1,997,565)	-	(1,997,565)
Support services:						
Student services	74,057	-	-	(74,057)	-	(74,057)
Instructional staff services	118,446	-	-	(118,446)	-	(118,446)
Administration services	437,461	-	-	(437,461)	-	(437,461)
Operation and maintenance of plant services	382,039	-	47,308	(334,731)	-	(334,731)
Transportation services	256,722	-	-	(256,722)	-	(256,722)
	1,268,725	-	47,308	(1,221,417)	-	(1,221,417)
Other expenditures:						
AEA flowthrough	151,340	-	151,340	-	-	-
Facilities acquisition and construction	30,629	-	-	(30,629)	-	(30,629)
Depreciation (unallocated)*	17,800	-	-	(17,800)	-	(17,800)
	199,769	-	151,340	(48,429)	-	(48,429)
Total governmental activities	4,086,383	67,130	751,842	(3,267,411)	-	(3,267,411)

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues			Governmental Activities	Business Type Activities	Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest			
	\$	\$	\$	\$	\$	\$
Business type activities:						
Non-instructional programs:						
Proprietary funds	177,134	100,053	89,682	-	12,601	12,601
Total	<u>4,263,517</u>	<u>167,183</u>	<u>841,524</u>	<u>(3,267,411)</u>	<u>12,601</u>	<u>(3,254,810)</u>
General revenues:						
Property tax levied for:						
General purposes				1,047,325	-	1,047,325
Management				72,414	-	72,414
Capital outlay				37,336	-	37,336
Local option sales tax				265,081	-	265,081
Unrestricted state grants				1,750,990	-	1,750,990
Unrestricted investment earnings				27,107	-	27,107
Other				85,093	-	85,093
Total general revenue				<u>3,285,346</u>	<u>-</u>	<u>3,285,346</u>
Change in net assets				17,935	12,601	30,536
Net assets beginning of year				<u>1,869,331</u>	<u>50,104</u>	<u>1,919,435</u>
Net assets end of year				<u>1,887,266</u>	<u>62,705</u>	<u>1,949,971</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General	Capital Projects	Property Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	432,228	391,655	400,677	140,553	1,365,113
Receivables:					
Property tax:					
Current year	10,798	-	409	748	11,955
Succeeding year	1,200,622	-	41,822	95,000	1,337,444
Due from other governments	17,121	68,715	-	-	85,836
Other receivables	-	-	-	-	-
Accrued interest receivable	9,762	8,672	8,565	1,032	28,031
Total assets	<u>1,670,531</u>	<u>469,042</u>	<u>451,473</u>	<u>237,333</u>	<u>2,828,379</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	4,381	-	-	-	4,381
Deferred revenue:					
Succeeding year property tax	1,200,622	-	41,822	95,000	1,337,444
Total liabilities	<u>1,205,003</u>	<u>-</u>	<u>41,822</u>	<u>95,000</u>	<u>1,341,825</u>
Fund balances:					
Reserved for capital projects	-	469,042	-	-	469,042
Unreserved	465,528	-	409,651	142,333	1,017,512
Total fund balances	<u>465,528</u>	<u>469,042</u>	<u>409,651</u>	<u>142,333</u>	<u>1,486,554</u>
Total liabilities and fund balances	<u>1,670,531</u>	<u>469,042</u>	<u>451,473</u>	<u>237,333</u>	<u>2,828,379</u>

See notes to financial statements.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (Exhibit C)	\$ 1,486,554
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	<u>400,712</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,887,266</u></u>

See notes to financial statements.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2006

	General	Capital Projects	Property Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources					
Local tax	1,047,325	265,081	37,336	72,414	1,422,156
Tuition	67,130	-	-	-	67,130
Other	112,200	21,462	20,064	197,863	351,589
State sources	2,113,189	-	32	60	2,113,281
Federal sources	150,162	-	-	-	150,162
Total revenues	<u>3,490,006</u>	<u>286,543</u>	<u>57,432</u>	<u>270,337</u>	<u>4,104,318</u>
Expenditures:					
Current:					
Instruction	<u>2,395,302</u>	<u>2,795</u>	<u>8,761</u>	<u>211,031</u>	<u>2,617,889</u>
Support services:					
Student services	74,057	-	-	-	74,057
Instructional staff services	116,915	-	1,531	-	118,446
Administration services	420,202	-	-	17,259	437,461
Operation and maintenance of plant services	324,888	-	26,778	30,373	382,039
Transportation services	198,308	2,300	60,815	14,238	275,661
	<u>1,134,370</u>	<u>2,300</u>	<u>89,124</u>	<u>61,870</u>	<u>1,287,664</u>
Other expenditures:					
AEA flowthrough	151,340	-	-	-	151,340
Facilities acquisition and construction	-	1,579	29,050	-	30,629
	<u>151,340</u>	<u>1,579</u>	<u>29,050</u>	<u>-</u>	<u>181,969</u>
Total expenditures	<u>3,681,012</u>	<u>6,674</u>	<u>126,935</u>	<u>272,901</u>	<u>4,087,522</u>
Excess (deficiency) of revenues over (under) expenditures	(191,006)	279,869	(69,503)	(2,564)	16,796
Fund balances beginning of year	<u>656,534</u>	<u>189,173</u>	<u>479,154</u>	<u>144,897</u>	<u>1,469,758</u>
Fund balances end of year	<u>465,528</u>	<u>469,042</u>	<u>409,651</u>	<u>142,333</u>	<u>1,486,554</u>

See notes to financial statements.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ 16,796

Amounts reported for governmental activities in the
 statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 68,315	
Depreciation expense	<u>(67,176)</u>	<u>1,139</u>

Change in net assets of governmental activities (Exhibit B) \$ 17,935

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>100,053</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	77,050
Benefits	9,946
Supplies	89,493
Depreciation	<u>645</u>
Total operating expenses	<u>177,134</u>
Operating (loss)	<u>(77,081)</u>
Non-operating revenues:	
Local sources	2,883
State sources	2,882
Federal sources	<u>83,917</u>
	<u>89,682</u>
Change in net assets	12,601
Net assets beginning of year	<u>50,104</u>
Net assets end of year	<u><u>62,705</u></u>

See notes to financial statements.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of services	100,053
Cash payments to employees for services	(86,996)
Cash payments to suppliers for goods or services	<u>(75,357)</u>
Net cash provided by (used in) operating activities	<u>(62,300)</u>
Cash flows from non-capital financing activities:	
State grants received	2,882
Federal grants received	<u>69,693</u>
Net cash provided by non-capital financing activities	<u>72,575</u>
Cash flows from investing activities:	
Interest on investments	<u>2,258</u>
Net increase in cash and cash equivalents	12,533
Cash and cash equivalents beginning of year	<u>42,459</u>
Cash and cash equivalents end of year	<u><u>54,992</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(77,081)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:	
Depreciation	645
Commodities used	14,224
(Increase) in inventory	<u>(88)</u>
	<u><u>(62,300)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>54,992</u></u>
Non-cash investing, capital and financing activities:	

During the year ended June 30, 2006, the District received federal commodities valued at \$14,224.

See notes to financial statements.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Funds
	<u>\$</u>
Assets	
Cash	<u>379,007</u>
Total assets	<u>379,007</u>
Net assets	
Reserved for scholarships	<u><u>379,007</u></u>

See notes to financial statements.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust <u>Scholarship</u>
	\$
Additions:	
Local sources:	
Miscellaneous	<u>9,603</u>
Total additions	<u>9,603</u>
Deductions:	
Support services:	
Scholarships	<u>8,661</u>
Total deductions	<u>8,661</u>
Change in net assets	942
Net assets beginning of year	<u>385,775</u>
Net assets end of year	<u><u>386,717</u></u>

See notes to financial statements.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Newell-Fonda Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Newell and Fonda, Iowa, and agricultural area in Buena Vista, Sac, Pocahontas and Calhoun Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Newell-Fonda Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Newell-Fonda Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Buena Vista and Pocahontas Counties Assessor Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy is used to account for the purchase of equipment and the repairing, remodeling and construction of buildings and land improvements.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. the District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used for scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures in the Instruction, non-instructional programs and other expenditures functions exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	2,000	-	-	2,000
Capital assets being depreciated:				
Buildings	1,006,000	-	-	1,006,000
Furniture and Equipment	528,378	68,315	-	596,693
Total capital assets being depreciated	1,534,378	68,315	-	1,602,693
Less accumulated depreciation for:				
Buildings	733,200	17,800	-	751,000
Furniture and Equipment	403,605	49,376	-	452,981
Total accumulated depreciation	1,136,805	67,176	-	1,203,981
Total capital assets being depreciated, net	397,573	1,139	-	398,712
Governmental activities, capital assets, net	399,573	1,139	-	400,712

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	22,364	0	-	22,364
Less accumulated depreciation	<u>20,060</u>	<u>645</u>	<u>-</u>	<u>20,705</u>
Business type activities capital assets, net	<u>2,304</u>	<u>(645)</u>	<u>-</u>	<u>1,659</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Transportation services
Unallocated

49,376
17,800
67,176

Business Type activities:

Food service operations

645

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$134,687, \$128,071 and \$117,874 respectively, equal to the required contributions for each year.

(5) Risk Management

Newell-Fonda Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$151,340 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive is equal to the difference between the employee's base salary calculated by using the current year regular salary schedule less the beginning base salary using the same schedule. Early retirement benefits paid during the year ended June 30, 2006 totaled \$14,733.

Required Supplementary Information

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual
	Actual	Actual	Actual	Original	Final	Variance -
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,840,875	102,936	1,943,811	1,712,976	1,712,976	230,835
State sources	2,113,281	2,882	2,116,163	2,146,548	2,146,548	(30,385)
Federal sources	150,162	83,917	234,079	225,000	225,000	9,079
Total revenues	<u>4,104,318</u>	<u>189,735</u>	<u>4,294,053</u>	<u>4,084,524</u>	<u>4,084,524</u>	<u>209,529</u>
Expenditures:						
Instruction	2,617,889	-	2,617,889	2,509,000	2,509,000	(108,889)
Support services	1,287,664	-	1,287,664	1,305,450	1,305,450	17,786
Non-instructional programs	-	177,134	177,134	165,000	165,000	(12,134)
Other expenditures	181,969	-	181,969	167,473	167,473	(14,496)
Total expenditures	<u>4,087,522</u>	<u>177,134</u>	<u>4,264,656</u>	<u>4,146,923</u>	<u>4,146,923</u>	<u>(117,733)</u>
Excess (deficiency) of revenues over (under) expenditures	16,796	12,601	29,397	(62,399)	(62,399)	91,796
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	16,796	12,601	29,397	(62,399)	(62,399)	91,796
Balance beginning of year	<u>1,469,758</u>	<u>50,104</u>	<u>1,519,862</u>	<u>1,974,448</u>	<u>1,974,448</u>	<u>(454,586)</u>
Balance end of year	<u><u>1,486,554</u></u>	<u><u>62,705</u></u>	<u><u>1,549,259</u></u>	<u><u>1,912,049</u></u>	<u><u>1,912,049</u></u>	<u><u>(362,790)</u></u>

See accompanying independent auditor's report.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the instruction, non-instructional and other expenditures functions exceeded the amounts budgeted. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2006

	<u>Management</u>	<u>Student</u>	<u>Total</u>
	\$	\$	\$
Assets			
Cash and pooled investments	53,674	86,879	140,553
Property tax receivable:			
Current year	748	-	748
Succeeding year	95,000	-	95,000
Accrued interest receivable	<u>1,032</u>	<u>-</u>	<u>1,032</u>
Total assets	<u>150,454</u>	<u>86,879</u>	<u>237,333</u>
Liabilities and Fund Balances			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	95,000	-	95,000
Fund balance:			
Unreserved fund balances	<u>55,454</u>	<u>86,879</u>	<u>142,333</u>
Total liabilities and fund balances	<u>150,454</u>	<u>86,879</u>	<u>237,333</u>

See accompanying independent auditor's report.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	72,414	-	72,414
Other	5,690	192,173	197,863
State sources	60	-	60
	<u>78,164</u>	<u>192,173</u>	<u>270,337</u>
Total revenues			
Expenditures:			
Instruction	14,733	196,298	211,031
Support services:			
Administration services	17,259	-	17,259
Plant operation and maintenance	30,373	-	30,373
Student transportation	14,238	-	14,238
Total expenditures	<u>76,603</u>	<u>196,298</u>	<u>272,901</u>
Excess of revenues over expenditures	1,561	(4,125)	(2,564)
Fund balances beginning of year	<u>53,893</u>	<u>91,004</u>	<u>144,897</u>
Balance end of year	<u><u>55,454</u></u>	<u><u>86,879</u></u>	<u><u>142,333</u></u>

See accompanying independent auditor's report.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Boys Basketball	10,107	12,077	14,171	8,013
Football	-	24,450	24,450	-
Baseball	1,286	4,696	5,902	80
Co-ed Track	235	1,282	1,517	-
Co-ed Golf	-	1,702	1,702	-
Girls Basketball	9,934	3,593	6,500	7,027
Volleyball	1,222	1,924	2,948	198
Softball	721	6,405	7,040	86
General Athletics	7,480	14,004	13,085	8,399
Cheerleaders	2,206	10,169	8,027	4,348
Drill Team	985	5,640	5,403	1,222
All School Play	2,249	995	1,081	2,163
Speech	359	1,684	1,700	343
Foreign Language Club	491	96	109	478
MS TA - Nielsen	958	11,966	7,468	5,456
Student Council	1,686	10,025	8,115	3,596
FCS	2,616	239	514	2,341
FFA	4,794	15,509	15,700	4,603
MS School Play	27	-	-	27
After Prom	93	5,755	5,624	224
Girls Basketball Fund Raiser	55	764	473	346
Boys Basketball Fund Raiser	308	710	1,018	-
Football Fund Raiser	3,865	10,450	13,194	1,121
Baseball Fund Raiser	4,615	6,099	6,635	4,079
Volleyball Fund Raiser	275	5,508	3,961	1,822
Softball Fund Raiser	4,523	7,226	7,458	4,291
Class of 2005	252	-	252	-
Class of 2006	1,055	478	1,533	-
Class of 2008	3,767	61	-	3,828
Class of 2009	-	7,849	4,350	3,499
Class of 2010	-	56	-	56
Class of 2007	3,636	1,403	4,057	982
Art	1,430	-	166	1,264
Shop	1,170	-	18	1,152
Elementary PTF Funds	3,615	2,225	1,497	4,343
MS PTF Funds	3,441	-	3,441	-
State Basketball Tourney Expense	565	-	-	565
Library	386	861	835	412
Postage	97	-	-	97
General Activity	1,119	3,946	3,572	1,493
Yearbook 06	-	11,505	7,290	4,215
Yearbook 05	5,102	390	5,492	-
Interest	4,279	431	-	4,710
Totals	91,004	192,173	196,298	86,879

See accompanying independent auditor's report.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Combining Schedule of Fiduciary Net Assets

Year ended June 30, 2006

	Private Purpose Trust Funds		
	Cecil Rogers Scholarship	Don Anderson Trust	Total
	\$	\$	\$
Assets			
Cash	6,544	372,463	379,007
	<u>6,544</u>	<u>372,463</u>	<u>379,007</u>
Net Assets			
Reserved for scholarships	6,544	372,463	379,007
	<u>6,544</u>	<u>372,463</u>	<u>379,007</u>

See accompanying independent auditor's report.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Combining Schedule of Changes in Fiduciary Net Assets

Year ended June 30, 2006

	Private Purpose Trust Funds		
	Cecil Rogers Scholarship	Don Anderson Trust	Total
	\$	\$	\$
Additions:			
Local sources:			
Interest income	140	9,463	9,603
Deductions:			
Support services:			
Scholarships awarded	-	8,661	8,661
Change in net assets	140	802	942
Net assets beginning of year	6,404	371,661	378,065
Net assets end of year	6,544	372,463	379,007

See accompanying independent auditor's report.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues
All Funds

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Local sources:				
General	1,047,325	1,094,897	1,235,303	1,185,802
Special revenue	109,750	69,609	210,418	203,693
Capital projects	265,081	184,629	1,777	-
	<u>1,422,156</u>	<u>1,349,135</u>	<u>1,447,498</u>	<u>1,389,495</u>
State sources:				
General	2,113,189	1,654,735	1,600,138	1,671,732
Special revenue	92	-	161	136
Enterprise	2,882	2,978	2,624	2,927
	<u>2,116,163</u>	<u>1,657,713</u>	<u>1,602,923</u>	<u>1,674,795</u>
Federal sources:				
General	150,162	121,638	147,726	97,136
Special revenue	-	25,000	14,693	-
Enterprise	83,917	76,294	76,672	77,497
	<u>234,079</u>	<u>222,932</u>	<u>239,091</u>	<u>174,633</u>
Total	<u>3,772,398</u>	<u>3,229,780</u>	<u>3,289,512</u>	<u>3,238,923</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Newell-Fonda Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Newell-Fonda Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 15, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newell-Fonda Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newell-Fonda Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances on non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Newell-Fonda Community School District and other parties to whom Newell-Fonda Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Newell-Fonda Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

August 15, 2006

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

06-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

06-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-II-B Certified Budget - Disbursements for the year ended June 30, 2006, exceeded the certified budget amounts in the instruction, non-instructional and other expenditures functions.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

06-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

06-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

06-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.

NEWELL-FONDA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

- 06-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 06-II-G Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- 06-II-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- 06-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 06-II-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.